



USPS Finances: FY 2005 and FY 2006 estimates

Presentation to the Postcom Board of
Directors

R. Kevin Harle

Senior Financial Analyst

Postal Rate Commission

February 15, 2005

Summary

- Quick look at FY 2005 finances
 - Look at first two months
 - Possible Scenarios for first quarter finances
- FY 2006 estimates in President's proposed FY 2006 budget of the U.S. Government
 - Compare USPS FY 2005 operating plan with proposed government budget
 - Look at FY 2006 financial estimates
 - Review administration's proposal on use of escrow funds required under P.L. 108-18

USPS FY 2005 Finances

- USPS net income for first two months of FY 2005 is \$624 million better than their operating plan.
 - Significant increase in volumes, especially First-Class, led to the largest revenue increase, without benefit of rate increase, since 1980's
 - First-Class volumes increased, 4.0% over SPLY, for first time since FY 2001.
 - Standard mail volumes increased at double digit rate (11.6%) for first time since Quarter 1 of FY 1985.
- Question is: Is this an anomaly or can it be sustained?
 - Anecdotal evidence says it already has reverted to trends of last few years

USPS FY 2005 Finances

USPS Income Statement
Year-To-Date, November, FY 2005
(\$ in Millions)

| | | | <u>Year-To-Date</u> | | | |
|--------------------------------|---------------------|-------------------|---------------------|---------------------|-------------|------------------|
| | <u>Actual</u> | <u>Budget</u> | <u>% Var. to</u> | <u>Budget</u> | <u>SPLY</u> | <u>% Var. to</u> |
| | | | | | | |
| Operating Revenue | 12,141 | 11,544 | 5.2% | 11,631 | | 4.4% |
| Investment Income | 6 | 1 | 757.1% | 6 | | 7.1% |
| Total Revenue | <u>12,147</u> | <u>11,545</u> | 5.2% | <u>11,637</u> | | 4.4% |
| | | | | | | |
| Personnel Compensation | 8,849 | 8,746 | 1.2% | 8,537 | | 3.7% |
| Transporation | 862 | 792 | 8.9% | 684 | | 26.0% |
| Supplies & Services | 289 | 375 | -23.0% | 315 | | -8.4% |
| Other | 995 | 1,103 | -9.8% | 1,017 | | -2.2% |
| Total Operating Expense | <u>10,995</u> | <u>11,016</u> | -0.2% | <u>10,553</u> | | 4.2% |
| | | | | | | |
| Interest Expense: | | | | | | |
| Long- Term Debt | 2 | 2 | -25.0% | 7 | | -77.6% |
| Deferred Ret. Liabilities | 36 | 36 | 0.0% | 0 | | 0.0% |
| OBRA 90 & 93 | 0 | 0 | 0.0% | 0 | | 0.0% |
| Total Expense | <u>11,033</u> | <u>11,054</u> | -0.2% | <u>10,560</u> | | 4.5% |
| | | | | | | |
| Net Income(Loss) | <u>1,114</u> | <u>490</u> | | <u>1,077</u> | | |
| | | | | | | |
| Mail Volume | 38,132 | N/A | | 35,471 | | 7.5% |
| Workhours | 243 | 237 | 2.4% | 241 | | 1.0% |

USPS FY 2005 Finances

US Postal Service Volume Analysis Year-to-Date Period Ended 11/30/04

| | <u>FY 2005</u> <u>(in millions)</u> | <u>FY 2004</u> <u>(in millions)</u> | <u>Increase or</u> <u>(Decrease)</u> <u>(in millions)</u> | <u>% Change</u> <u>SPLY</u> |
|---------------------------|--|--|---|--------------------------------|
| Mail Volume | | | | |
| First Class | 16,741.1 | 16,102.2 | 639.0 | 4.0% |
| Priority | 140.0 | 137.4 | 2.6 | 1.9% |
| Subtotal | <u>16,881.1</u> | <u>16,239.6</u> | <u>641.5</u> | <u>4.0%</u> |
| Express Mail | 8.4 | 8.3 | 0.1 | 1.3% |
| Periodicals | 1,532.5 | 1,543.7 | (11.2) | -0.7% |
| Standard Mail | 19,229.4 | 17,258.7 | 1,970.7 | 11.4% |
| Package Services | 188.1 | 196.0 | (7.9) | -4.0% |
| International Mail | 142.1 | 129.5 | 12.7 | 9.8% |
| All Other | 150.0 | 95.4 | 54.7 | 57.3% |
| Total Mail Revenue | <u>38,131.8</u> | <u>35,471.1</u> | <u>2,660.7</u> | <u>7.5%</u> |

USPS FY 2005 Finances

US Postal Service Revenue Analysis Year-to-Date Period Ended 11/30/04

| | <u>FY 2005</u> <u>(in thousands)</u> | <u>FY 2004</u> <u>(in thousands)</u> | <u>Increase or</u> <u>(Decrease)</u> <u>(in thousands)</u> | <u>%</u> <u>Change</u> |
|--------------------------------|---|---|--|---------------------------|
| Mail Revenue | | | | |
| First Class | 6,171.3 | 6,032.2 | 139.0 | 2.3% |
| Priority | 730.1 | 712.2 | 17.8 | 2.5% |
| Subtotal | <u>6,901.3</u> | <u>6,744.4</u> | <u>156.9</u> | 2.3% |
| Express Mail | 132.7 | 131.3 | 1.5 | 1.1% |
| Periodicals | 376.5 | 380.2 | (3.7) | -1.0% |
| Standard Mail | 3,598.7 | 3,290.4 | 308.4 | 9.4% |
| Package Services | 375.6 | 383.1 | (7.5) | -2.0% |
| International Mail | 296.0 | 261.0 | 35.1 | 13.4% |
| All Other | 0.1 | 0.1 | (0.0) | -21.8% |
| Total Mail Revenue | <u>11,681.0</u> | <u>11,190.4</u> | <u>490.5</u> | 4.4% |
| Other Operating Revenue | | | | |
| Box Rents | 113.2 | 112.2 | 1.0 | 0.9% |
| Money Order Fees | 35.3 | 29.4 | 5.9 | 20.1% |
| Other | 301.6 | 293.1 | 8.6 | 2.9% |
| Revenue Foregone | 10.3 | 6.1 | 4.2 | 68.9% |
| Total Operating Revenue | <u>12,141.4</u> | <u>11,631.2</u> | <u>510.2</u> | 4.4% |
| Investment Income | <u>6.0</u> | <u>5.6</u> | <u>0.4</u> | 7.1% |
| Total Revenue | <u>12,147.4</u> | <u>11,636.8</u> | <u>510.6</u> | 4.4% |

USPS FY 2005 Finances: Two possible scenarios of the first quarter.

- Scenario # 1: Assuming same percentage increases for December, FY 2005 as occurred in December, FY 2004.
 - Revenue increase 2.9%; Expenses increase 7.6%
- First Quarter, FY 2005 could be second most profitable in USPS history.

Estimated Income Statement First Quarter, FY 2005 (\$ in Millions)

| | Est. Qtr. 1 <u>FY 2005</u> | Act. Qtr. 1 <u>FY 2004</u> | <u>\$</u> <u>Difference</u> | <u>%</u> <u>SPLY</u> |
|----------------|-------------------------------|-------------------------------|--------------------------------|-------------------------|
| Total Revenue | \$18,921 | \$18,217 | \$704 | 3.9% |
| Total Expenses | 17,306 | 16,400 | 906 | 5.5% |
| Net Income | <u>1,615</u> | <u>1,817</u> | (202) | |

USPS FY 2005 Finances: Two possible scenarios of the first quarter.

- Scenario # 2: Assuming same percentage increase in expenses for December, FY 2005 as occurred in December, FY 2004 and 0% increase in revenue.
 - Revenue increase 0.0%; Expenses increase 7.6%
- First Quarter, FY 2005 could still be second most profitable in USPS history.

Estimated Income Statement First Quarter, FY 2005 (\$ in Millions)

| | <u>Est. Qtr. 1</u> <u>FY 2005</u> | <u>Act. Qtr. 1</u> <u>FY 2004</u> | <u>\$</u> <u>Difference</u> | <u>%</u> <u>SPLY</u> |
|----------------|--------------------------------------|--------------------------------------|--------------------------------|-------------------------|
| Total Revenue | \$18,730 | \$18,217 | \$514 | 2.8% |
| Total Expenses | 17,306 | 16,400 | 906 | 5.5% |
| Net Income | 1,424 | 1,817 | (393) | |

USPS FY 2005 Finances

- USPS has acknowledged improvement of FY 2005 finances.
 - The President's budget proposal for FY 2006 shows an improvement of \$216 million in FY 2005 from original USPS operating plan.

Comparison of FY 2005 Finances
USPS Operating Plan vs. U.S. Govt. Budget
(\$ in millions)

| | <u>Operating Plan</u> | <u>Govt. Budget</u> | <u>\$</u> <u>Difference</u> | <u>%</u> <u>SPLY</u> |
|----------------|-----------------------|---------------------|--------------------------------|-------------------------|
| Total Revenue | \$68,340 | \$68,399 | \$59 | 0.1% |
| Total Expenses | 68,532 | 68,375 | (157) | -0.2% |
| Net Income | (192) | 24 | 216 | |

President's Budget: FY 2006

- USPS projects a \$4.1 billion net loss for FY 2006
 - Includes \$3.1 billion for escrow payment
 - Does **NOT** assume additional revenues from higher rates
- Administration proposes to use the escrow funds to begin funding annuitant health benefits liabilities
 - Has established specific account in OPM proposed budget for FY 2006

President's Budget: FY 2006

Postal Service Estimates Included in US Government FY 2006 Budget (\$ in Millions)

| | <u>FY 2005 Est.</u> | <u>FY 2006 Est.</u> | <u>\$</u> <u>Difference</u> | <u>%</u> <u>SPLY</u> |
|-------------------|---------------------|---------------------|--------------------------------|-------------------------|
| Total Revenue | \$68,399 | \$68,494 | \$95 | 0.1% |
| Total Expenses | 68,375 | 72,606 | 4,231 | 6.2% |
| Net Income/(Loss) | 24 | -4,112 | -4,136 | |

- Minimal 0.1% increase in revenues indicates no rate increase included in revenue projections
- Largest expense increase is the escrow requirement of P.L. 108-18; estimated at \$3.1 billion
- Further information should be available when USPS files the FY 2006 budget submitted to OMB with the Commission within the next two months

President's Budget: FY 2006

- Administration proposes to use the escrow payment to “..put the Postal Service on a path that fully funds its substantial retiree health benefits liabilities.”
- Wants to establish a new account in the proposed FY 2006 budget of the Office of Personnel Management (OPM) for the “Postal Service Contribution for Retiree Health Benefits”

President's Budget: FY 2006

- USPS would pay into the account to:
 - Provide for the accruing actuarial costs of USPS contributions for annuitant health benefits for current employees
 - Amortization payments needed to liquidate the USPS unfunded liability as of 9/30/2005, both principal and interest
- Payment for first 10 years would be capped at the size of the escrow payment plus the current cost of annuitant health benefit premiums
- After that OPM would re-calculate the unfunded annuitant health benefits liability and establish amortization schedule to liquidate the liability over 30 years

President's Budget: FY 2006

- Administration proposal in Summary:
 - FY 2006 through FY 2015 USPS payment would be:
 - Escrow payment + PAYGO AHB Premiums
 - FY 2016 through FY 2045 USPS payment would be based on re-calculation of AHB liability.
 - Payment would be based on 30 year amortization of re-calculated liability.
 - USPS would be relieved of the PAYGO AHB premiums which would then be paid from the new Annuitant Health Benefits Fund.
- Two questions:
 - How often would OPM be required to re-calculate AHB liability?
 - What would be the formula used to calculate the liability?